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Nedbank Old Mutual Budget Speech Competition — Undergraduate Category

How can South Africa build a fiscally sustainable student-financing model that enhances access to higher education? Refer to international experience in your analysis.

South Africa's student-financing system sits at the intersection of two competing imperatives: expanding access to higher education as a driver of social mobility, and containing a public purse under sustained fiscal pressure. The National Student Financial Aid Scheme (NSFAS) has grown from a niche bursary fund into one of the largest line items in the higher education budget, yet it remains chronically underfunded relative to demand, administratively strained, and structurally blind to the "missing middle" — students whose households earn too much to qualify for full funding but too little to afford university fees. A fiscally sustainable model cannot simply mean spending more; it must mean spending differently, informed by what has worked, and failed, elsewhere.

The limits of a pure-grant model

NSFAS currently operates largely as a grant system: qualifying students receive funding that does not need to be repaid. This is politically popular and directly addresses inequality, but it is fiscally fragile. Grant-based funding scales linearly with enrolment and cost inflation, with no revenue recycling mechanism. When the funding envelope is fixed by Treasury while the qualifying population grows, the result is exactly what South Africa has experienced: late disbursements, accommodation crises, and universities carrying NSFAS debt on their own balance sheets. A model funded entirely by direct government grants is not sustainable at the scale South Africa needs, given competing demands on the fiscus from health, social grants, and debt-service costs.

International lessons: income-contingent financing

Australia's Higher Education Loan Programme (HELP), introduced in 1989, offers the clearest alternative model. Students defer tuition costs through a government loan, but repayment is collected through the tax system only once a graduate's income crosses a set threshold, and repayment rates rise with income. Crucially, the loan book is designed to be largely self-financing over time: graduates who benefit most from their qualification contribute proportionally more, while low earners are protected from repayment obligations that would push them into hardship. The scheme has expanded access dramatically without the year-on-year budget crises that characterise grant-only systems, though it has required periodic recalibration of interest and repayment thresholds to remain solvent.

The United Kingdom adopted a similar income-contingent loan model, but its experience is a caution rather than a template: high fee caps combined with generous, non-means-tested loan access has left a large share of the loan book unlikely to ever be repaid in full, effectively converting loans into disguised grants while retaining the accounting fiction of a loan asset. The lesson for South Africa is that income-contingent financing only delivers fiscal sustainability if repayment thresholds and interest structures are calibrated realistically against actual graduate earnings data, not aspirational projections.

Germany illustrates a different path: largely tuition-free public universities, funded through general taxation, on the logic that a highly skilled workforce generates enough downstream tax revenue to justify the upfront cost. This works within Germany's high-tax, high-formal-employment economy, but is difficult to transplant directly to South Africa, where the formal tax base is narrower and unemployment among graduates, while far lower than among non-graduates, is still significant enough to weaken the "the state recoups the cost later" logic.

Chile's shift toward gratuidad (free tuition for lower-income students, funded partly through copper revenues) shows a resource-financed hybrid approach, but also demonstrates the risk of funding higher education from a volatile commodity revenue stream — a caution relevant to a South Africa whose fiscus is similarly exposed to mining and export cycles.

A proposed hybrid model for South Africa

Drawing on these cases, a fiscally sustainable South African model should combine three elements rather than relying on any single mechanism.

First, a means-tested threshold below which funding remains grant-based, preserving NSFAS's core redistributive function for the poorest students, who should not be expected to carry debt into an uncertain job market.

Second, an income-contingent loan tier for the "missing middle" and for postgraduate study, collected through SARS via the existing PAYE and provisional tax infrastructure, with repayment triggered only above a realistic income threshold pegged to actual graduate earnings data rather than optimistic assumptions. This directly addresses the group NSFAS currently excludes, without expanding the pure-grant liability.

Third, a diversified funding base that reduces reliance on Treasury allocations alone: an expanded and better-enforced Skills Development Levy contribution from employers who benefit directly from graduate output, formal public–private partnerships with the many private-sector employers competing for scarce technical skills, and alumni-donation-based endowment mechanisms similar to those that fund significant portions of financial aid at leading international universities.

A case for efficiency, not just financing: lessons from alternative access models

Financing reform alone will not close South Africa's access gap if delivery costs remain fixed at traditional university levels. I have direct experience of an alternative model through my own studies at WeThinkCode_, a tuition-free software engineering programme funded through corporate and donor partnerships rather than student fees or NSFAS. Its model — project-based learning, lean administrative overhead, and direct alignment with industry skills demand — delivers a qualification at a fraction of the per-student cost of a conventional degree, while placing graduates directly into employment. This is not a substitute for universities, but it demonstrates that "fiscally sustainable access" is not only a financing question; it is also a delivery-model question. Government could extend similar public–private, low-overhead training models in scarce-skills fields such as software engineering, data science, and AI, reducing pressure on the NSFAS budget by diverting a share of demand toward pathways that cost the state less per graduate while still meeting labour-market needs.

Conclusion

South Africa does not need to choose between fiscal discipline and educational access; it needs a financing architecture that makes the two mutually reinforcing rather than competing. A tiered model — means-tested grants for the poorest, income-contingent loans calibrated to real earnings data for the missing middle, and a diversified funding base drawing in the private sector — offers a more resilient foundation than the current grant-heavy, single-source system. International experience shows both the promise of income-contingent financing and the fiscal traps of designing it around unrealistic assumptions. Paired with a genuine push toward lower-cost, industry-aligned training pathways, this hybrid approach could expand access to higher education in a way the fiscus can actually sustain over the long term.